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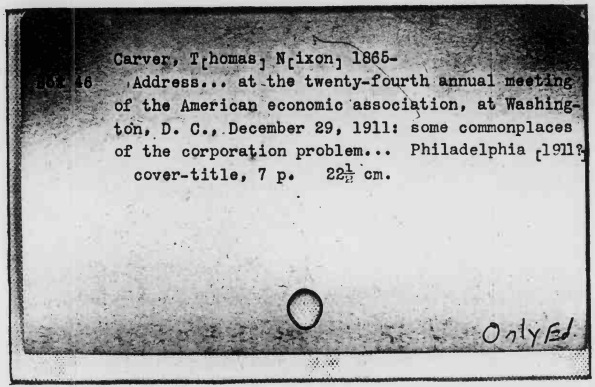
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Professor T. N. CARVER

of Harvard University

at the Twenty-Fourth Annual Meeting

of the

AMERICAN ECONOMIC ASSOCIATION

at Washington, D. C., December 29, 1911

Some Commonplaces of the Corporation Problem

Sent out with the compliments of George H. Paine, Philadelphia, Pa.

SOME COMMONPLACES OF THE CORPORATION PROBLEM

It is related of a certain strenuous slayer of lions in Africa that, once upon a time, he was attacked by a lion when he did not have a gun. As the lion sprang at him, he dropped to the ground, and the beast went clean over him. Again the lion sprang and again he dropped and allowed it to go over him. After a third failure of this kind the lion went off in disgust. As soon as the hunter could get his gun he went out after the lion and found it out on the veldt practicing a short jump.

We need to imitate the lion's wisdom in attacking the corporation problem.

A decade or so ago the social psychologists were engaged with the problem of the mob mind. Before the analysis was carried very far, it was discovered that the mob mind did not present any special mystery as distinct from the individual mind. The mob thinks and acts precisely as any of its individuals would think or act were his power greatly increased and his sense of responsibility greatly diminished. That is precisely what the presence of numbers does for the individual when they are all moved by a common impulse; it gives him a sense of power proportionate to the numbers and, at the same time, the very fact of numbers diminishes his own sense of responsibility. That is why the mob is so like a monster, for the difference between a man and a monster is precisely that, the monster feels a sense of power and does not feel a sense of responsibility.

Something of the same kind exists in the case of an industrial corporation. There also you have the circumstance of increased power combined with diminished responsibility. The sense of power comes, not so much from the presence of numbers as it does in the case of the mob, as from the larger fund of competitive capital which is brought together. The diminished sense of responsibility comes partly from the mere fact of numbers, no individual of which feels the full responsibility for the acts of the whole, partly from the impersonal character of the conduct of the corporation, and partly from the limited liability feature of most of the charters. Most of the evils of corporation practice grow out of this simple

situation and the remedy must be applied at this point. The sense of responsibility must be made commensurate with the sense of power.

This is to be accomplished, not by reducing the powers of corporations so much as by increasing the sense of responsibility of its individual members. If they can be made to feel the same responsibility for the acts of the corporation which they feel for their individual acts, the corporation problem as such, will be solved, and it will be solved in no other way. This means the frank adoption of Governor Harmon's maxim that crime is always personal, and that corporate law-breaking is to be dealt with in precisely the same way as individual law-breaking.

In fact, it may be necessary to go even further and enforce stricter responsibility upon members of corporations, particularly the larger corporations, than we do even upon individuals. If the principle we have laid down be sound, it furnishes no support to the view that the mere bigness of a corporation is not a matter for the law to take into account. From our point of view, bigness is an important factor in the problem, for the bigger the corporation the greater its power and the less the sense of responsibility on the part of each member. That situation alone calls for more and more strict regulation and enforcement of responsibility the bigger the corporation becomes. Its increased power is a good thing provided that power be used productively and not acquisitively, but there is no certainty that it will be used productively unless subjected to the strictest control. This does not mean that large corporations have worse dispositions than small, nor that their members are meaner men than the members of small corporations. It only means that the disproportion between power and responsibility increases with the size of the corporation.

If I may use a homely illustration, I will take the common house cat, whose diminutive size makes her a safe inmate of our household in spite of her playful disposition and her liking for animal food. If, without the slightest change of character or disposition, she were suddenly enlarged to the dimensions of a tiger, we should at least want her to be muzzled and to have her claws trimmed, whereas if she were to assume the dimensions of a mastodon, I doubt if any of us would want to live in the same house with her. And it would be useless to argue that her nature had not changed, that she was just as amiable as ever, and no more carnivorous than she always had been. Nor would it convince us to be told that her productivity had greatly increased and that she could now catch more mice in a minute than she formerly could in a week. We should be afraid lest, in a playful mood, she might set a paw upon

us, to the detriment of our epidermis, or that in her large-scale mouse catching she might not always discriminate between us and mice.

There is another problem, not strictly a corporation problem, but a social problem growing out of the prevalence of the corporate form of industrial organization. That is the problem of the widening gap between employers and employed, or, more strictly, between capitalists and laborers. It may be laid down as a general social law that anything which separates people into sharply distinguishable groups, whether it be a geographical boundary, a racial difference, religious creeds or a class distinction will produce between the groups thus separated, first ignorance of one another, then suspicion growing out of that ignorance, then misunderstanding growing out of that ignorance and suspicion, and finally open warfare whenever a pretext is found; whereas anything which bridges over these gaps, or brings people together regularly and normally, creates, first, knowledge of one another, then confidence instead of suspicion, then understanding instead of misunderstanding, and finally, lasting peace because no difficulty seems large enough to serve as a pretext for war.

Now the joint stock form of organization, though a most effective industrial device, has had at least one serious social result. It has widened somewhat the gap which would otherwise have existed between the employing group and the employed group. When employers are known by their personality, and can come in some kind of personal or direct contact with employees, and when, therefore, employer and employee know something about one another, there can be no such degree of ignorance of one another as now exists. And where ignorance disappears, suspicion tends to disappear also; but when employers stand as the shareholders of a corporation in a purely impersonal relation to employees, when the average employer or shareholder knows nothing personal about the employees of the corporation, and also the employees know absolutely nothing personal about the shareholding employers, there is about as great a degree of ignorance on either side of the line of those on the other as can be found anywhere in modern social life.

That gap which separates the two groups is made so wide as to produce very much the same result as is produced by a difference of color between races, or a difference of religion between too widely contrasted religious groups. Such a state of things never failed in the history of the world to produce suspicion, jealousy, misunderstanding, and on the slightest pretext, open hostility; and so far as we are able to see into the future, there is not the slightest ground for hoping that such a condition will ever fail to produce these

same undesirable results. In other words, we need not hope for social peace, or for any cessation of the conflict of classes until that chasm is in some way bridged over or made to disappear.

This result can hardly be achieved by doing away with joint stock corporations. They are too effective as industrial devices to make such a program tolerable; but if we are ever to have anything resembling social peace, some way must be found to bring employing classes and the employed into personal relationships one with another. The ideal is undoubtedly that of having the workers in our industrial establishments become also the owners of the stock of the corporation. If that result could possibly be achieved, there would be an end of the present phase of warfare.

How this is to be achieved is another question. It will never be achieved until our corporation laws and our judicial procedure relating to corporations are made efficient enough to make it a safe venture for a man of small means to buy a share in an industrial corporation. So long as these things are so inefficient as to enable large shareholders and rings to freeze out the small shareholders, or in any way to make it hazardous for a man of small means, such as the average working man, to invest in a share, it will never be accomplished. This looks to me like a legal problem rather than a legislative problem; and it is for the legal fraternity and the courts to solve. If they cannot solve it or if they ultimately prove unable to solve it, it may be necessary to reform our courts. Many discriminating persons are beginning to believe that the judicial branch of our government instead of being the most efficient, is less efficient even than the legislative or the executive.

As to those extreme developments of the corporation principle commonly called trusts, it is becoming more and more apparent that their power for evil lies wholly in their power of controlling and manipulating prices. If that power could be taken out of their hands, we should then have nothing to fear from them.

If they could not succeed and survive in competition through their power over prices they could then succeed only through their power of production. If they should then survive, the mere fact of their survival would prove their fitness to survive. This has been pointed out many times by scholars; but the practical men, with their unerring instinct for the wrong way, have ignored it and have been trying various hard and useless methods of dealing with the problem. Eventually, after having tried every possible way of going wrong, we shall apply the simple and direct remedy of governmental control of prices wherever a monoply exists.

I do not wish to indulge in any sentimental nonsense about the people and their control over affairs of this kind. The people never did, do not now, and never will control these things or anything else

connected with Government. These and all other Governmental affairs are controlled by politicians, and politicians are no more interested in the people than the trust magnates themselves. But, the choice is a hard one. Where competition fails to regulate prices, these prices are going to be fixed arbitrarily by some one. In the absence of Governmental control, they are fixed by the trust operators alone. Where there is Governmental control, they are fixed by the joint action of politicians and the trust operators. Their interests are not the same, and as the result of their pulling and hauling, prices will not be fixed quite so completely in the interest of the trust, but more in the interest of the trusts and the politicians. Since the people can control trusts after a fashion by refusing to buy of them, and politicians after a fashion by refusing to vote for them, it will happen that through this double control the interests of the people will be somewhat better safeguarded than now.

Incidentally, this would destroy most of the trusts. No trust exists by virtue of its superior productive powers. Every one depends for its existence upon its superiority in buying or selling, that is upon its power over prices. Take away this power and enable the outside concerns to match their productivity against that of the trust, and outside competition will increase and force the trust to break up into its most efficient *productive* units, as distinguished from the most efficient bargaining units.

T. N. CARVER.

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